

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 TRSY-02 PM-04 NSC-05 SP-02 SS-15

L-03 CIAE-00 INR-07 NSAE-00 /048 W
-----020617Z 002393 /17

R 011015Z APR 77
FM AMEMBASSY BANGKOK
TO SEDSTATE WASHDC 724
INFO SECDEF WASHDC
CINCPAC

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CINCPAC ALSO FOR POLAD

E.O. 11652: NA
TAGS: PFOR, MARR, TH, US
SUBJ: RTG CONTRIBUTION TO JUSMAG

REF: STATE 58915

1. IN PAST YEARS THE 7 MILLION BAHT DRAWING ACCOUNT HAS
NOT BEEN FULLY UTILIZED BY JUSMAG AND THE REMAINDER AT THE END
OF THE THAI FISCAL YEAR HAS BEEN TURNED OVER TO THE RTG. IF
THIS SITUATION STILL OBTAINED, THERE WOULD BE NO GREAT DIS-
ADVANTAGE IN CUTTING THE DRAWING ACCOUNT. HOWEVER, WE
IDENTIFIED 6.2 MILLION BAHT IN SUPPORT COSTS FOR FY1977
WHICH, IF THEY HAD NOT BEEN FUNDED OUT OF THIS ACCOUNT,
WOULD HAVE ENTAILED A DOLLAR FOR DOLLAR REPLACEMENT FROM USG
FUNDS. SOME OF THE ITEMS INCLUDED IN THE 6.2 MILLION BAHT
ARE SUPPLEMENTS TO SPECIFIC ITEMS IDENTIFIED AS AIK IN THE
1960 EXCHANGE OF NOTES AND WE COULD POSSIBLY PERSUADE THE
THAI TO INCLUDE THEM AS AIK IN THE FUTURE. HOWEVER, IT
SEEMS IMMATERIAL TO US WHETHER THERE IS A SPECIAL ACCOUNT
OR IN WHAT AMOUNT IT MIGHT BE. SO LONG AS THE THAI ARE
WILLING TO ABSORB THE COSTS IT DOES NOT MATTER HOW THEY
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HANDLE THE BOOKKEEPING. NOTE: ONE REASON JUSMAGTHAI CAN
FULLY USE THIS 7 MILLION BAHT NOW IS THAT CERTAIN COSTS
FORMERLY ABSORBED BY MACTHAI HAVE APPEARED (ENGINEERING,
MAINTENANCE, MOTOR POLL) AS JUSMAG SUPPORT COSTS.

2. THE ADVANTAGE TO THE U.S. OF HAVING THE DRAWING ACCOUNT
TO COVER SUPPORT COSTS IS THAT THE USG CONTROLS THE CON-

TRACTS AND, THEREFORE, THE QUALITY OF WORK. FOR EXAMPLE, IF MAINTENANCE AND ENGINEERING FOR THE JUSMAG COMPOUND WERE LEFT TO THE THAI TO PROVIDE SIMPLY AS AIK, THE STATE OF REPAIR AND MAINTENANCE COULD BE EXPECTED TO DETERIORATE MEASURABLY. BUILDINGS WOULD NOT BE PAINTED, PLUMBING AND ELECTRICAL PROBLEMS WOULD BE IGNORED. UNDER A CONTRACT FUNDED THROUGH THE DRAWING ACCOUNT, JUSMAG CAN CHOOSE THE CONTRACTOR AND MAINTAIN THE LEVERAGE REQUIRED TO ENSURE COMPLIANCE.

3. IT SEEMS TO US THAT DEPT ARGUMENT OUTLINED PARA 3 REFTEL IS THE ESSENCE OF THE DEBATE. BECAUSE WE CAN NOW FULLY TUILIZE THE 7 MILLION BAHT ACCOUNT (AS WELL AS OTHER AIK), ANY REDUCTION WILL HAVE THE SAME EFFECT ON THE USG AS REDUCING THE CONTRIBUTED CURRENCY. REPLACEMENT FUNDS WILL HAVE TO BE FOUND. HOWEVER, AS MENTIONED ABOVE, IF WE LOSE THE DRAWING ACCOUNT WE LOSE CONTROL OF THE QUALITY OF SUPPORT.

4. WE WOULD ALSO NOTE THAT NOWHERE IN THE 1950 AGREEMENT IS CONTRIBUTED CURRENCY MENTIONED. PARA 1 OF ARTICLE VIII STATES THE GOVERNMENT OF THAILAND WILL MAKE AVAILABLE TO THE GOVERNMENT OF THE U.S. "BAHT FOR THE USE OF THE LATTER GOVERNMENT FOR ITS ADMINISTRATIVE AND OPERATING EXPENDITURES WITHIN THAILAND IN CONNECTION WITH ASSISTANCE FURNISHED TO THE GOVERNMENT OF THAILAND UNDER THIS AGREEMENT". AT THE FIRST NEGOTIATING SESSION THE THAI REPRESENTATIVE ASKED IF WE COULD GIVE AN ACCOUNTING OF HOW THE CONTRIBUTED CURRENCY WAS USED UNDER THE TERMS OF THE AGREEMENT, LIMITED OFFICIAL USE

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I.E., WITHIN THAILAND AND IN CONNECTION WITH SECURITY ASSISTANCE. WE DID NOT REPORT THIS SPECIFIC REQUEST TO THE DEPT BECAUSE WE RECOGNIZED THAT THE CONTRIBUTED CURRENCY LOSES ITS IDENTITY ONCE IT IS DEPOSITED AND THAT OUR RESPONSE WOULD HAVE TO BE ALONG THE LINES THAT THE CONTRIBUTION FINDS ITS WAY BACK THROUGHT THE USG ACCOUNTING SYSTEM AND IS USED TO SUPPORT BAHT OUTLAYS FOR COSTS ARISING FROM JUSMACHAI OPERATIONS. IN THE THAI VIEW, AIK, BOTH THAT SPECIFIED AND THAT PURCHASED THROUGH THE DRAWING ACCOUNT, MORE CLEARLY MEETS THEIR OBLIGATION DESCRIBED IN PARA 1, ARTICLE VIII,

5. WE ARE OBLIGATED UNDER PARA 2, ARTICLE VIII TO ENTER DISCUSSIONS WITH THE THAI TO DETERMINE THE AMOUNT OF BAHT TO BE PROVIDED AND THE ARRANGEMENTS FOR FURNISHING IT. THE THAI WOULD SEEM TO BE ON SOLID GROUND UNDER THE BASIC AGREEMENT IF THEY INSIST ON AN ACCOUNTING OF HOW THEIR CONTRIBUTIONS ARE SPENT. THIS IS EASY WITH AIK WHICH THEY PROVIDE AND WITH SUPPORT FINANCED THROUGHTHE

DRAWING ACCOUNT FOR WHICH THERE ARE CONTRACTS, BILLS, AND RECEIPTS. SUCH IS NOT THE CASE WITH CONTRIBUTED CURRENCY.

6. IN SUM, FROM THIS VANTAGE POINT THE ARGUMENTS FOR 1 LEAVING THE DRAWING ACCOUNT INTACT REMAIN PERSUASIVE. EVEN IF WE COULD GET SOME ITEMS PROVIDED AS AIK WHICH ARE NOW FUNDED BY THE ACCOUNT, WE ARE VERY LIKELY TO FIND CREEPING COSTS EATING UP WHATEVER APPARENT SAVINGS WE MIGHT BE ABLE TO MAKE. THE SHORTFALL THEN WOULD HAVE TO BE FUNDED BY THE USG AND WE COULD END UP BEING TWO-TIME LOSERS.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL CONTRIBUTIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 01-Apr-1977 12:00:00 am
Decapton Date: 01-Jan-1960 12:00:00 am
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BANGKO07128
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770114-0126
Format: TEL
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197704100/aaaadizx.tel
Line Count: 128
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ccecb39b-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 STATE 58915
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2662922
Secure: OPEN
Status: NATIVE
Subject: RTG CONTRIBUTION TO JUSMAG
TAGS: PFOR, MARR, TH, US
To: STATE
Type: TE
vdkgvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/ccecb39b-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009